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Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

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In the Matter of	)	
	)	
Federal-State Joint Board on Universal Service	)	CC Docket No. 96-45
	)	
1998 Biennial Regulatory Review-Streamlined Contributor Reporting Requirements Associated with Administration of Telecommunications Relay Service, North American Numbering Plan, Local Number Portability, and Universal Service Support Mechanisms	)	CC Docket No. 98-171
	)	
Telecommunications Service for Individuals with Hearing and Speech Disabilities, and the Americans with Disabilities Act of 1990	)	CC Docket No. 90-571
	)	
Administration of the North American Numbering Plan and North American Numbering Plan Cost Recovery Contribution Factor and Fund Size	)	CC Docket No. 92-237 NSD File No. L-00-72
	)	
Number Resource Optimization	)	CC Docket No. 99-200
	)	
Telephone Number Portability	)	CC Docket No. 95-116
	)	
Truth-in-Billing and Billing Format	)	CC Docket No. 98-170

TO: The Commission

REPLY COMMENTS OF THE WESTERN ALLIANCE

THE WESTERN ALLIANCE

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Dated: May 13, 2002

TABLE OF CONTENTS

Summary ii

REPLY COMMENTS OF THE WESTERN ALLIANCE 1

I. The Western Alliance 4

II. The Western Alliance is Concerned About The Long-Term Viability Of The Present USF Contribution Mechanism 5

III. Unanswered Questions Regarding A "Connections-Based" Contribution Mechanism 7

A. The Proposed "Connection-Based Mechanism Does Not Appear To Generate Sufficient Universal Service Funding 8

B. Definition of "Connections" 9

IV. Conclusion 13

SUMMARY

The Western Alliance is primarily concerned with the long-term sustainability of a sufficient Universal Service Fund ("USF"). To the extent there are concerns that the current universal service funding mechanism may not be sustainable in the long term, it supports the study of "connection-based" mechanisms and other options for strengthening USF financing in the long run.

The Western Alliance believes the USF program can be sustained only by expanding the base of USF contributors and contributing services. It believes that all providers of telecommunications and telecommunications services that use and benefit from the public switched telephone network and the USF programs [including interexchange carriers (IXCs) and Internet service providers (ISPs)] can and should be required to contribute to USF programs. It is very concerned that the initially proposed "connection-based" mechanism will impact adversely the USF system by virtually eliminating the IXC contributions that presently constitute 63 percent of USF funding.

The Western Alliance is also concerned that the initially proposed "connection-based" mechanism does not contain a clear and specific definition of "connection." It cannot comment upon the feasibility of a "connection-based" funding mechanism until it can determine the number and identity of the contributors, and estimate the amount of USF contributions that will be generated.

If the Commission desires to pursue the "connections" approach, the Western Alliance urges, at the very minimum: (a) that the term "connection" be defined to encompass the facilities and services of all entities that provide an interstate

telecommunications component as part of their end-user services (including IXCs, ISPs, wireless carriers, bundled service providers, payphone providers, dial-around services, and Internet Telephony providers, as well as local exchange carriers); and (b) that the contribution obligations imposed upon Centrex and other multi-line business users are equitable, competitively and technologically neutral, and not so large that they drive business users off the public network.

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TO: The Commission

REPLY COMMENTS OF THE WESTERN ALLIANCE

The Western Alliance, by its attorney, hereby submits its reply to the comments of AT&T Corp. ("AT&T"), the Information Technology Association of America ("ITAA"), the so-called Coalition For Sustainable Universal Service ("CoSUS") and others that submitted comments in response to the Commission's Further Notice of

Proposed Rulemaking and Report and Order, FCC 02-43, released February 26, 2002 ("FNRPM").

The predominant concern of the Western Alliance in this proceeding is the long-term sustainability of a Universal Service Fund ("USF") that is sufficient to maintain affordable local service rates in high-cost rural areas, as well as services and rates that are reasonably comparable to those in urban areas. As telecommunications technologies and markets change and develop, telephone penetration needs to remain high in rural areas, and rural residents must remain able to participate via the public network in the economic and social life of the Nation.

The Western Alliance recognizes that there are legitimate concerns that the existing USF contribution mechanism may not be able to sustain a sufficient USF program in the long run. It is willing to explore further the Commission's "connection-based" assessment proposal, as one of several options for strengthening USF financing in the long run. However, the Western Alliance is very concerned that the primary proponents of the "connection-based" alternative are interexchange carriers ("IXCs") that want to slash or eliminate their existing USF contributions and Internet Service Providers ("ISPs") that want to continue to be exempted from making any USF contributions.

The Western Alliance believes the USF program can be sustained in the long term only by expanding the base of USF contributors and contributing services. It believes that all providers of telecommunications and telecommunications services that use and

benefit from the public switched telephone network and the USF programs[1] can and should be required to be USF contributors. It is very concerned that some elements of the proposed "connections-based" approach are likely to impact adversely the stability and predictability of USF support, particularly the virtual or entire elimination of the IXC contributions that presently constitute approximately 63 percent of federal USF funding.

The Western Alliance is also concerned that the FNPRM does not define "connection," the critical term that will establish the number and identity of the contributors under the proposed "connection-based" funding alternative. It is not until the Commission clarifies what it means by "connection" and proffers data and projections indicating how much in USF contributions will be generated via the defined "connections" that the Western Alliance and others can comment appropriately upon the feasibility of a "connection-based" funding mechanism.

If the Commission desires to pursue the "connections" approach, the Western Alliance urges, at the very minimum: (a) that the term "connection" be defined to encompass the facilities and services of all entities that provide an interstate telecommunications component as part of their end-user services (including IXCs, ISPs, wireless carriers, bundled service providers, payphone providers, dial-around services, and Internet Telephony providers, as well as local exchange carriers); and (b) that the contribution obligations imposed upon Centrex and other multi-line business users are equitable, competitively and technologically neutral, and not so large that they drive business users off the public network.

[1] These entities include incumbent local exchange carriers ("ILECs"), competitive local exchange carriers ("CLECs"), wireless carriers, IXCs, ISPs, bundled service providers, payphone providers, dial-around

I.

The Western Alliance

The Western Alliance is a consortium of the Western Rural Telephone Association and the Rocky Mountain Telecommunications Association. It represents about 250 rural telephone companies operating west of the Mississippi River.

Western Alliance members are generally small local exchange carriers serving sparsely populated rural areas. Most members serve less than 3,000 access lines overall, and less than 500 access lines per exchange. Their revenue streams differ greatly in size and composition from those of the price cap carriers. Most members generate revenues much smaller than the national telephone industry average, and rely upon interstate access and universal service dollars for 45-to-70 percent of their revenue base.

At the same time, Western Alliance members incur per-customer facilities and operating costs far in excess of the national average. Not only does their small size preclude their realization of significant economies of scale, but also they serve remote and rugged areas where the cost per loop is much higher than in urban and suburban America. Their primary service areas are comprised of sparsely populated farming and ranching regions, isolated mountain and desert communities, and Native American reservations. In many of these high cost rural areas, the Western Alliance member not only is the carrier of last resort, but also is the sole telecommunications provider ever to show a sustained commitment to invest in and serve the area.

Western Alliance members are highly diverse. They did not develop along a common Bell System model, but rather employ a variety of network designs, equipment types and organizational structures. They must construct, operate and maintain their

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services, and Internet Telephony providers.

networks under conditions of climate and terrain ranging from the deserts of Arizona to the rain forests of Hawaii to the frozen tundra of Alaska, and from the valleys of Oregon to the plains of Kansas to the mountains of Wyoming.

Predictable and sufficient federal USF revenues are essential to Western Alliance members if they are to continue constructing, maintaining and operating telecommunications facilities in high-cost rural areas, while providing quality services to their rural customers at affordable rates. Therefore, the Western Alliance has found it necessary to participate in this and other portions of CC Docket No. 96-45.

II.

The Western Alliance Is Concerned About The Long-Term Viability Of The Present USF Contribution Mechanism

Federal universal service revenues are essential to the continued availability of affordable local service rates in rural areas, and to the continued connection of many rural residents to the domestic and international telecommunications networks. As the Commission is well aware, factors such as low population densities, harsh terrain and climate conditions, and limited economies of scale make the cost of providing a local loop in a rural area as much as one hundred times greater than the cost of providing a local loop in an urban area.[2] Without reliable federal universal service revenues to help recover these high costs, local service rates in many rural areas would increase by $50-to-$100 or more per month per line. Local service rate hikes of this magnitude will drive

[2] The Commission expressly compared an estimated $866.27 cost for a loop in a Wyoming wire center with an estimated $9.97 cost for a loop in a New York City wire center. It noted further that overhead cost adjustments could greatly increase this cost difference. Second Report and Order and Further Notice of Proposed Rulemaking in CC Docket No. 00-256, Fifteenth Report and Order in CC Docket No. 96-45, and Report and Order in CC Docket Nos. 98-77 and 98-166 (Multi-Association Group (MAG) Plan for

many rural residents off the network entirely, and force many others to reduce significantly their usage of and expenditures for additional telecommunications and information services.

The Western Alliance agrees with CoCUS that the interstate revenues of IXCs have declined during recent periods. However, it remains far from certain that the recent declines will continue over the long-term. Some of the decline appears to be part and parcel of the recent economic downturn, and will correct itself as general economic conditions improve. Other portions of the decline may be due to industry and market changes, such as wireless Digital-One Rate ("DOR") pricing plans and the bundling of interstate services into packages with equipment and/or information services.

The existing revenue-based USF contribution mechanism may be capable of dealing with both short-term and long-term revenue reductions of AT&T and other existing IXCs. For example, wireless carriers furnishing significant amounts of interstate toll service in connection with DOR and other calling plans should be required to make universal service contributions on the basis of a much larger portion of their revenues than the current 15 percent "safe harbor." Likewise, carriers bundling interstate services with other services and equipment have elected to give the resulting packages a substantial interstate character, and should be required to make universal service contributions on the basis of all or the major portion of the revenues for the packages. These adjustments would stabilize USF funding without eliminating IXC contributions altogether or enduring the uncertainties and dislocations arising from the substitution of an untried new funding mechanism.

Regulation of Interstate Services of Non-Price Cap Incumbent Local Exchange Carriers and Interexchange Carriers), FCC 01-304, released November 8, 2001, at para.45 and n.140.

Because the stability and sufficiency of the universal service program is so critical to rural residents, the Commission is acting very prudently to study modified and alternative contribution mechanisms at this time. Whether the Commission ultimately decides to retain a modified revenue-based funding mechanism or adopt an alternative methodology, the Western Alliance urges the Commission to expand the universal service contributor base to include all providers of telecommunications and telecommunications services that use and benefit from the public switched telephone network and the USF programs, and to refrain from placing excessive contribution burdens upon Centrex and other multi-line business customers.

III.

Unanswered Questions Regarding A "Connections-Based" Contribution Mechanism

The Commission's proposed connection-based assessment mechanism would assess USF contributions on a flat, monthly basis with respect to residential, single-line business and mobile wireless connections. The residual portion of universal service funding needs would be recovered via contributions from multi-line businesses, based on the capacity of the connections provided. FNPRM at para. 16.

A.

The Proposed "Connection-Based" Mechanism
Does Not Appear To Generate Sufficient Universal Service Funding

In calendar year 2003, the Western Alliance estimates that total federal universal service program funding requirements will be $6.5 billion, and will include the following elements:

High Cost Programs	
High Cost Loop Support (Rural Carriers)	$1,100,000,000
High Cost Model Support (Non-Rural Carriers)	200,000,000
Local Switching Support	400,000,000
Long Term Support	500,000,000
Interstate Access Support (CALLS Plan)	650,000,000
Interstate Common Line Support (MAG Plan)	450,000,000
Competitive ETC Support	100,000,000
Subtotal: High Cost Programs	$3,400,000,000
Schools & Libraries, Rural Health Care and Low Income Programs	
Schools & Libraries Support	$2,250,000,000
Rural Health Care Support	100,000,000
Lifeline and Link-Up Support	750,000,000
Subtotal: S&L/RHC/Low Income	$3,100,000,000
TOTAL: UNIVERSAL SERVICE PROGRAMS	$6,500,000,000

Upon initial review, it does not appear that the initially proposed base of residential, single-line business, and mobile wireless "connections" will raise much more than half of the necessary funds, if the connection rate is capped at $1.00 per month. In 2003, the Western Alliance estimates that incumbent local exchange carriers ("ILEC's") will serve 134 million residential and small business lines, that competitive local exchange carriers ("CLECs") will serve 17 million residential and small business lines, and that wireless carriers will serve 172 million subscribers. Assuming that each of these 323 million lines and subscribers constitutes a "connection" and that the contribution

charge is set at $1.00 per month per "connection," less than $3.9 billion[3] of the necessary $6.5 billion of projected calendar year 2003 universal service funding (60 percent) would be raised from these "connections." **The Western Alliance believes that recovery of the residual $2.6 billion (40 percent) or so of USF funding requirements from Centrex and other multi-line business customers would place an unreasonably large financial burden upon these customers.** It is likely to produce increased use of private networks by business customers, to the ultimate disadvantage of all public network users

B.

Definition Of "Connections"

Prior to further considering a "connection-based" approach, the Western Alliance urges the Commission to define expressly the term "connection" so that interested parties can properly evaluate and price out the proposed mechanism and determine its impact upon end users. At minimum, the term "connection" should encompass (1) IXC service arrangements and (2) ISP accounts in addition to local exchange and wireless service arrangements.

Under a "connection-based" mechanism, the "public network" should be defined as the sum total of all individuals, residences, businesses, institutions, governments, mobile users, information services, web sites and similar entities that can communicate with each other, in whole or part, by means of interstate telecommunications. Connections to the public network include (but are not limited to) local exchange service,

[3] This number would be reduced by the connection-based contributions of Lifeline subscribers (approximately 5.887 million Lifeline subscribers in calendar year 2000), if Lifeline subscribers are exempted from making universal service contributions.

presubscribed interexchange service, dial-around interexchange service, payphone service, debit card service, mobile telephone service, and Internet access service. Each such "connection" allows a user to access a portion of the "public network" that would not be accessible without the "connection." And each such "connection" benefits directly or indirectly from universal service programs that encourage the participation of as many entities as possible on the "public network," as well as and from the existence and availability of local exchange facilities and other "connections" to the public network.

Interexchange Carriers. IXCs furnish separate and independent "interexchange connections" to the public network, and should be required to make universal service contributions for each service arrangement they maintain, as well as for their local service and special access "connections." Whereas a user in Maryland may employ her local exchange service or mobile wireless telephone service to contact a person in Nebraska, she also requires an "interexchange connection" from her IXC to complete the desired call.

Given that IXCs presently furnish approximately 63 percent of federal universal service contributions, it would be extremely inequitable and disruptive to shift the major portion of their contribution obligations unto local exchange carriers and mobile wireless providers. The Commission should not expect decreases in the USF contributions paid by IXCs to result in any decreases in consumer toll service bills. Rather, as the Commission is well aware, AT&T and other large IXCs announced significant residential toll rate increases and residential toll service limitations almost immediately after receiving substantial access cost relief as a result of the Commission's adoption of the Coalition for

Affordable Local and Long Distance Service (CALLS) and Multi-Association Group (MAG) plans.

Moreover, a "connection-based" or any other mechanism that significantly reduces the universal service contributions of IXCs would violate the express requirement in Section 254(d) of the Communications Act that "[e]very telecommunications carrier that provides interstate telecommunications services shall contribute, on an equitable and nondiscriminatory basis, to the specific, predictable and sufficient mechanisms established by the Commission to preserve and advance universal service." This statutory mandate plainly envisions and encompasses IXC contributions to universal service programs.

If a "connection-based" mechanism is adopted, the Western Alliance recommends that each IXC be required to make universal service contributions for each interstate and international toll service arrangement that it offers during a given month. These service arrangements would include presubscription, debit cards, dial-around calls, and other existing and future toll service arrangements. Whereas presubscription would be relatively easy to monitor under a "connection-based" system, other interstate toll calling arrangements would have to be assessed USF contributions in order to avoid placing unfair burdens and disincentives upon presubscription. For example, IXCs furnishing dial-around service and debit card service could be required to collect and remit a "per-call connection" contribution for each dial-around or debit card call (e.g., 10 cents per call), or to make USF contributions on the basis of their dial-around or debit card revenues (e.g. 7.28% of such revenues). Mobile wireless telephone service providers that bundle wireless and toll services into pricing plans that lack separate roaming and long

distance charges should be required to make contributions for two separate connections - a "mobile connection" and an "interexchange connection."

Internet Service Providers. In addition, the Commission should recognize that ISPs use telecommunications facilities to provide separate "connections" to the public network. A user in Maryland may employ her "local exchange service connection" or "mobile connection" to initiate a visit to a web site "located" in California or to send an e-mail to an acquaintance in Arizona, but she also requires an "Internet connection" from an ISP to complete the desired communication.

Many ISPs do not offer unbundled telecommunications services per se, but they do employ telecommunications services and facilities to connect their customers to the public network and recover the cost of such telecommunications services and facilities in the rates they charge their customers. Hence, ISPs effectively "resell" interstate telecommunications services to their customers. In addition, ISPs place substantial burdens upon telecommunications facilities (e.g., the lengthy average holding times of Internet calls), and derive significant benefits from their access to the public network (including access to the millions of residences and small businesses able to participate on the network due to the Commission's universal service programs). Finally, ISPs are major beneficiaries of the Schools and Libraries program.

The Western Alliance urges the Commission to require ISPs to make a connection-based contribution for each of their customer accounts during each month. Requiring contributions for "Internet connections" will make the universal service funding mechanisms more equitable and will further reduce the contribution burdens of

the residential and single-line business customers of ILECs, CLECs, wireless carriers, and IXCs, as well as multi-line business customers.

IV

Conclusion

The Western Alliance vigorously supports the stable and sufficient universal service programs necessary to maintain affordable and reasonably comparable telecommunications services in high-cost rural areas. To the extent that there are concerns that the current universal service funding mechanism may not be sustainable in the long term, the Western Alliance supports the Commission's study of "connection-based" mechanisms and other alternatives. If a "connection-based" mechanism is adopted to fund some or all of the federal universal service programs, it should be broadly-based to include "interexchange connections" and "Internet connections" as well as ILEC, CLEC and wireless "connections." This is not only necessary to comply with the statutory contribution requirements of Section 254(d) of the Act, but also will distribute contribution burdens more equitably among telecommunications carriers, providers of interstate telecommunications and their customers.

Respectfully submitted,
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CERTIFICATE OF SERVICE

I, Douglas W. Everette, hereby certify that I am an attorney with the law firm of Blooston, Mordkofsky, Dickens, Duffy & Prendergast, and that copies of the foregoing "Reply Comments of The Western Alliance" were hand delivered on this 13th day of May, 2002 to the persons listed below:

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